Používat jeden nebo dva výkazy výsledovky v českých podnicích?

One or Two Statement Approach for the Income Statement of Czech Companies?

Patrizia Gazzola, Stefano Amelio

Abstract:
Purpose of the article: The article examines the IAS 1 revised that allows the company to choose between a reclassification of items by nature or by function (destination), it also provides two alternative presentations of the income statement: a single statement of comprehensive income or two statements, the first containing the components of net income, and the second that, starting from net income, shows the other components of expanded income.
Methodology/methods: First we outline the principal theories of the statement of comprehensive income, secondly we concentrate the research to obtain the empirical data. The research is developed in the following steps: selection of the companies surveyed; selection of the documents to be analysed; election of the empirical aspects to be studied.
Scientific aim: The aim of the research is to define which format has been adopted by companies listed on the Czech Republic Stock Exchange for the new Income Statement to be prepared according to the International Accounting Standards – IAS 1 *revised* in 2007. In particular, we examine the Consolidated Financial Statements 2010 published *online*.
Findings: This article illustrates the two choices that have the companies to present items of net income, items of other comprehensive income and total comprehensive income: they can create one continuous statement of comprehensive income or two separate consecutive statements.
Conclusions: The results show that the Czech financial statements have not a firms' propensity to separate the section of the income statement in two statements rather than to integrate it into a single one, while the reclassification of the income statements privileges the reclassification by nature.

Keywords: income statement, international accounting standards, net income, other comprehensive income, statement of comprehensive income, total comprehensive income

JEL Classification: M14, M41

Introduction

The IAS 1 revised allows the company to choose between a reclassification of items by nature or by function (destination), it also provides two alternative presentations of the income statement: a single statement of comprehensive income or two statements, the first containing the components of net income, and the second that, starting from net income, shows the other components of expanded income.

The evolution of the principles of financial statements and the fair value in the evaluating the assets as an alternative to historical cost characterises the configuration of the incomes, according to Internal Financial Reporting Standards – IFRS (Sucher and Bychkova, 2001).

The net incomes are determined according to the principle of economic competence. According to IAS/IFRS, this principle reflects the Anglo-Saxon approach to the financial statement, it considers the concepts of income and costs closely related with those of assets and liabilities, as they represent their changes in value. The consistency of the company's equity and its variations as a result of decisions of management is heightened. So, according to this approach, the determination of the economic result is the consequence of the equity in a given period.

This means that the income produced in a certain period comes also from the changes in value recognized in the equity elements, that is by values without transactions with other economies. Therefore, the income statement, besides the net income (Net Income – NI), provides an "extended" income to the "comprehensive" income (the Comprehensive Income – CI).

The aim of the research is to analyze the choices made by the companies listed on the Czech Republic Stock Exchange for the new income statement to be prepared according to the International Accounting Standards – IAS 1 revised in 2007. In particular, we examine the data of the consolidated financial statements 2010 of the listed company (Main Market) that are obliged to adopt the international accounting standards IAS / IFRS. In particular, we would like to understand if the choices are influenced by the national rules.

1. The process of harmonization and standardization

The harmonization of accounting, auditing, and financial reporting is multi-dimensional. When two or more countries have similar accounting systems, the regulators of the countries may try to work on a bilateral level to gain mutual recognition.

The international harmonization has had very different effects on the world (Hove, 1986; Cairns, 1997; Flower, 1997), with particular consequences in Eastern Europe, where national rules still influence the drafting of the financial statements. The evolution of the financial statement in European countries provides an example of the influence of political and economic changes on the rules and on accounting practices. The process of transition from a centrally planned economy to a market economy in the Czech Republic started in 1991 when the Parliament approved the first Accounting Act. The other strong series of reforms of the Czech accounting system were in 2004 with the annexation to the European Union.

We can divide the last twenty years into three periods (Zàrovà, 2009):

– in the first period (from 1991 to 2002) the accounts and balance sheets were subordinated to the demands of a centrally planned system. For the accounts it was required to adopt a fixed chart of accounts and the analysis of the company's financial position was not required. The Accounting Act in 1992 and The Charts of Accounts and Accounting Procedures for Business began in 1993 the reformation of the accounting practices. The Ministry of Finance issued, in addition to the Accounting Act, an obligatory detailed guidance. The adoption of which was required for tax matters: it concerned on the one hand the introduction of a chart of accounts for different types of enterprises (in which accounts are kept according to the method of double entry) and on the other hand it specified the structure and the content of the financial statements and accompanying notes; we can say that since 1992 there have been lots of changes that radically altered the Czech accounting system.

In 2003, the structure was changed and made temporary in preparation to the Czech Republic admittance into the EU and, consequently, to the adoption of the IAS / IFRS.

After 2003, the Accounting Act was amended to incorporate the IFRS standards, obligatory for all publicly traded companies. The decrees were further changed with balance sheet and income statement changes involving materiality and classification of expenses. Since 2004, finally three levels of accounting regulation entered into force: the Accounting Act, the decrees of the Ministry of Finance and the National Standards (Gazzola, Amelio, 2012). On January 2011 the amended Accounting Act took effect. It brought a significant change in the use of the International Financial Reporting Standards as adopted by the EU for the unlisted entities operating in the Czech Republic in terms of separate financial statements. Companies which follow the IFRSs as adopted by the EU for their consolidated financial statements and companies which are part of a group which report the consolidated financial statements under the IFRS as adopted by the EU are now allowed to use the IFRSs as adopted by the EU also for their separate financial statements.

The process of harmonization and standardization of economic and financial information of the European companies (Tay and Parker, 1990; Emenyonu and Gray, 1996; Murphy, 2000) has an important date in 2002, when the European Union (EU) adopted the International Financial Reporting Standard. The Regulation 1606/2002 requires to all European companies listed in an EU securities market to prepare their consolidated financial statements based on the IFRSs, starting with financial statements for the financial year 2005. Czech companies listed in a EU securities market follow the IFRSs since 2005. In law, the Czech Republic seeks to attain the maximum compliance to create an environment for the implementation of the IFRS for the financial statements of public interest entities by 2005. The Czech tax base, however, is still based on Czech Generally Accepted Accounting Principles (Czech GAAP) regardless of which accounting standards the companies use for the preparation of their financial statements. Despite the years, we cannot really say that there has been a complete harmonization of Czech financial statements to International Financial Reporting Standards (Zemánková, Fedorová, 2010).

The general character of the Czech accounting system is a Continental European approach with a strong influence from tax regulations. The most important difference between the IAS/IFRS and the Czech GAAP is related to the gap of basis between the two principles: while IFRSs are principle-based, Czech accounting law is rules-based (Beranová, 2008). The "target user" of the financial statements in the Czech Republic is still the tax administration, not the investors or the owners. Moreover, unlike the international standards, Czech accounting standards do not have a glossary of definitions for the basic elements of the financial statement, so we use the definitions applied in IFRS (Strouhal, Deari, 2009).

There is an obvious need to resolve the diversity in accounting and financial accounting practices, but there were several obstacles in the implementation of the International Accounting Standards (Sucher and Jindrichovska, 2004). The IFRS accounting principle has slightly increased in the Czech Republic, because the Czech companies that are important parts of foreign groups prepare the financial statements according to the group accounting rules based on IFRS; unfortunately, most of the Czech Companies do not see the opportunities that IFRS could bring them and even if the opportunities are seen, the fact that the financial statements prepared according to the IFRS have to be prepared in addition to the Czech financial statements discourages the companies to use the IFRS (Šteker and Otrusinová, 2011).

In the global economy, companies around the world are looking to expand their capital in foreign countries. However, to effectively raise capital in a foreign market, it's necessary that foreign investors can understand the financial statements. One solution is to prepare more than one financial statements, one with the GAAP of the own state and the others using the language, currency, and accounting principles that are generally accepted in those foreign markets. Normally the costs of such a solution are too high. A more effective solution would be to use a commonly acceptable set of reporting practices, like IAS/IFRS, and satisfy the potential information needs of investors wherever they are located.

The International Accounting Standards Committee (IASC), the organization in the lead in establishing IAS, believes that having such standards will:

1) Lower cost by requiring business to have only one set of financial statements.
2) Lower the confusion in interpreting different countries' reports.
3) Increase credibility of accounting and financial statements in general, and
4) Help developing countries create a national standard that is useful in today's international world. (IASC, 1999)

2. The statement of comprehensive income

Traditionally, the income statement was considered the principal medium to report the financial performance of a company and net income was literally the bottom line of the income statement. But over time, accounting standards setters came to believe that net income by itself was an insufficient, and possibly even useless measure of financial performance.

In 1987, the FASB stated "it is important to avoid focusing attention almost exclusively on 'the bottom line,' earnings per share, or other highly simplified condensations" (Statement of Financial Accounting Concepts (SFAC) No. 5, "Recognition and Measurement in Financial Statements of Business Enterprises"). More recently, the FASB and the IASB have seriously considered banishing net income entirely from income statements (Reilly, 2007).

Net income has lost its importance for the standards setters, but another measure of financial performance, comprehensive income, has gained status.

The IAS 1 provides a single document setting out the "extended" income for the period (total comprehensive income, TCI): the name of the prospectus is "statement of comprehensive income" (Bhamornsiri and Wiggins, 2001). There is a single result: the expanded income, which is an indicator of the overall performance of the company (Bamber and Als, 2010).

The statement of comprehensive income illustrates the financial performance and results of operations of a company for a period of time. The comprehensive income is the change in equity (net assets) of a company during a period deriving from transactions and other events and circumstances from non-owner sources. In the statement of comprehensive income, the result is an income that includes the net income (obtained from the balance between revenues and operating costs) and changes in value of assets that are recognized only to the equity: the other comprehensive income – OCI (Goncharov and Hodgson 2008, Fernandez and Carro Arana 2010). In this way, the performance is not only potential but it is enlarged to all the elements that meet the definition of income and expenses.

According to the International Financial Reporting Standards, IAS 1 revised, since January 2009 there are two alternatives of presentation (Van Cauwenberge and De Beelde 2007, Solomon and Dragomirescu, 2009):

a) a single **statement of comprehensive income, that** presents all items of income and expense recognised in the period or
b) *two* separate income statements comprising:
   - an **income statement** displaying components of profit or loss **and**
   - a **statement of comprehensive income** that *begins* with profit or loss (bottom line of the income statement) and displays the items of *other comprehensive income* for the reporting period (IAS 1 p.81).

A company that elects the one-statement approach will present:

- total net income, together with the components that make up the net income,
- total OCI, together with the components that make up the OCI, and
- total comprehensive income, *i.e.*, the sum of net income and OCI.

A company choosing the two statement approach will present:

- components of and a total for net income in the statement of net income, and
- components of and a total for OCI, as well as a total for comprehensive income in the statement of OCI, which must be presented immediately after the statement of net income.

Companies that use the two statement approach will have the option to begin the second statement with or without the net income. The FASB decided not to require companies to present the net income at the beginning of the statement of OCI because, if necessary, the total could be carried over from the previous statement, emphasizing the interdependence between the two statements.

The FASB has maintained the separate statements. Their reasons included the following:

- A continuous statement might confuse investors by de-emphasizing net income, which is the basis for calculating earnings per share.
- Separate statements are appropriate because components of OCI do not relate to a reporting entity's core business activities and/or are outside management's control.
- It is too soon to eliminate the option for the separate statements; the decision should be postponed until the Boards can develop a conceptual framework for determining what items of income and expense should be reported in OCI.

In addition, there are two options to present the OCI components:

- Net of tax effects.
- Before tax effects, with a single amount presented for the total income tax expense or benefit associated with the items in OCI.

In both cases it is required to disclosure the effect of tax for each component of the other comprehensive income in the notes.

An entity shall present an analysis of expenses using a classification based on either the nature of expenses or the function of expenses within the entity, whichever provides information that is reliable and more relevant.

The result of the statement of comprehensive income is the comprehensive income; it is the change in equity (net assets) of a company during a period deriving from transactions and other events and circumstances from non-owner sources. The statement of comprehensive income illustrates the financial performance and results of operations of a particular company or entity for a period of time.

The statement of comprehensive income aggregates the income statement and **the** other comprehensive income (which isn't reflected in profits and losses). "Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners." (IAS 1 p.7).

Comprehensive income includes traditional net income and also the effects of changes recorded in other comprehensive income. As we know the difference between net income and comprehensive income is known as other comprehensive income. Other comprehensive income includes items such as the unrealized investment gains and losses on certain marketable securities, unrealized gains and losses on derivatives used in cash flow hedging, gains and losses relating to pensions and other post-retirement benefits, foreign currency translation adjustments, *etc.*

3. Material and methods

In the research, for the evaluation of the companies choices about the total comprehensive income we use the financial statement data. In particular, we analyze which approach and format have been adopted by the companies listed on the Czech Republic Stock Exchange for the income statement. We examine the consolidated financial statements 2010, published *online,* to be prepared according to the International Accounting Standards – IAS 1 *revised* in 2007.

From the analysis of the existing accounting principles in Eastern Europe, we have treated the IAS/IFRS principles on the income statement. Then, we have described and summarised the data emerging from the observation of the 2010 consolidated financial statement relating to the new format of the income statement.

The attention was focused on the election between one of the two formats of income statement, a theme that creates debates since a long time. Then, we propose some reading hypothesis for any of the findings obtained.

First of all, the attention was paid on the choice made for presenting the results of operations:

a) In a single statement of comprehensive income according to the single statement approach whereby one document must show the expanded income (Total Comprehensive Income – TCI), as the algebraic sum of two partial results: net income (profit for the year which is the difference between all positive and negative components of income) and the balance of other components of output (other comprehensive income).
b) In two separate statements: the first (income statement) containing the components of net income (separate income statement) and a second that, starting from net income exposes the other components of income (extended statement of comprehensive income or statement of comprehensive income). This is the two statement approach, whereby the overall performance of the company is to be found in two separate documents: the income statement which highlights the net income and the statement of comprehensive income in which, starting from the net income, all the other components of result and finally the "extended" result are shown (Total Comprehensive Income).

Subsequently, the attention was put on the reclassification criterion adopted by the companies: by nature or by function. In addition to this primary investigated aspects, we move the attention on other profitability aspects of particular relevance, before conducting a final statistical analysis.

For the research we use some of the basic methods of the scientific research to obtain the information necessary to the complex processing of the issue.

The work is developed in the following tree steps:

a) selection of the Czech companies surveyed,
b) selection of the documents to be analysed,
c) choice of important data and numbers.

Ad a) In the first step the financial statements of the listed Czech companies that have adopted the IAS/IFRS principle in preparing their financial statements have been checked. The target market is the Czech Republic Stock Exchange. Having regard to the limited number of listed companies, all companies are analysed.

Ad b) In the second step the analysis of the financial statements for the year 2010 published on the website of the Czech Stock Exchange has been made.

Ad c) In the third profile (the aspect to analyse) it is specified how the research is driven at two levels:
- mere empirical description of the existing,
- the check of the relationships between specific aspects traced to variables: choice of relevant data and the preparation of tables and graphs.

The research describes and synthesizes the use of simple statistical indicators and data emerging from the observation of the financial statement with regard to the format of the total comprehensive income. At the conclusion of the previous observation and as feedback of the first empirical evidence emerging from the reading of the financial statements, we move to the discussion, supporting it with statistical analysis.

The main contribution of this line of research is to demonstrate the relevance of the total comprehensive income and to contribute to the international debate about which choice is made by the companies about the total comprehensive income in the IFRS financial statement.

The methods usually complement each other and, in consequence, overlap. The first part draws the choices on the income statement from the theoretical research. We predominantly use methods of qualitative research. The second part is about the empirical research on the income statement of the companies listed in the Czech Republic stock exchange. In the last part the results of empirical research on the income statement of the companies listed in the Czech Republic are shown.

The results show that the Czech financial statements have not a firms' propensity to separate the section of the income statement in two statements rather than to integrate it into a single one, while the reclassification of the income statements privileges the reclassification by nature.

4. Results and discussion

4.1 The adopted statement of comprehensive income

The analysis on the format choice of the consolidated income statements closed in December 2010, allows us to reach the conclusions reported in Table 1. In it, the results about the two main areas of discretion granted by the European legislator in relation to the drafting of the financial document (the type of approach – one statement approach/two statement approach – and the reclassification criterion of items – by nature/by function) are synthesized.

(1) At first sight, it might seem arranged on the basis of the Two statement approach. Two elements lead to the opposite conclusion: a) the "Loss for the period" is not repeated before the listing of the other comprehensive income; b) the distinction between "loss attributable" and "total comprehensive income attributable" is at the end of the table.

(2) Although the indication of selling, general and administrative expenses in a single aggregate, suggests that the mode of classification adopted is by destination (function).

(3) Financial statement related to the period 01/01/2011 – 06/30/2011.

(4) The voice other comprehensive income has not been listed, presumably it's included in the headings: "Net gain/ (loss) from fair value adjustments on investment property" and "Other operating income".

(5) Although the indication of the heading: "Cost of goods sold" might give the impression that the writer of the statement has opted for the mode of classification by destination/function.

(6) At first sight, it might seem arranged on the basis of the Two statement approach. Two elements lead to the opposite conclusion: a) the "Net profit for the period" is not repeated before the listing of the other comprehensive income; b) the distinction between "net income attributable" and "total com-

Table 1. The Companies listed on the Czech Republic Stock Exchange.

N.	COMPANY	APPROACH	RECLASSIFICATION
1	AAA Auto Grpup N.V.	One statement	By nature
2	CETV – Central European Media Enterprises LTD	Two statement	By nature
3	CEZ	Two statement	By nature
4	ECM Real Estate Investments A.G.	One statement (1)	By nature
5	ERSTE Group Bank	Two statement	By nature
6	FORTUNA Entertainment Group N.V.	Two statement	By nature
7	KITD – Kit Digital Inc.	Two statement	By nature (2)
8	KOMERCNI Banka	Two statement	By nature
9	NWR – New World Resources (3)	Two statement	By nature
10	ORCO Property Group	One statement (4)	By nature (5)
11	PEGAS Nonwovens	One statement (6)	By nature
12	PHILIP MORRIS CR	One statement	By function
13	TELEFONICA 02 CZECH REPUBLIC A.S.	One statement	By nature
14	UNIPETROL A.S.	One statement	By function
15	VIG – Vienna Insurance Group	Two statement	By nature

Source: Author's own.

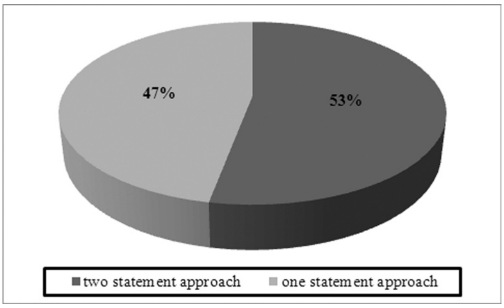

Figure 1. The adopted approach. Source: Author's own.

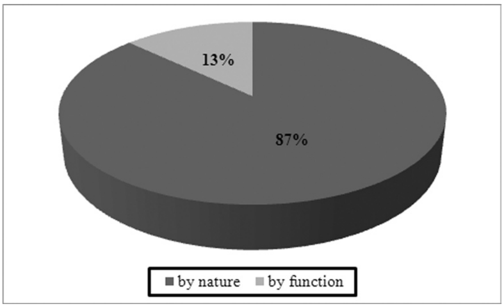

Figure 2. The adopted reclassification criterion. Source: Author's own.

prehensive income attributable" is at the end of the table.

The same results can be summarized in two graphs that allow a better identification of the choices made by the editors of financial statements.

In relation to the first profile of analysis, the observation of the consolidated financial statements of the fifteen companies, has given a particular result: about half of the companies (8 companies on 15 and then 53%) has opted for the two statement approach and the other half (7 companies on 15, then 47%) has opted for the one statement approach, with a slight predominance for the first option. This result demonstrates the equal validity of both solutions.

In relation to the second profile of the analysis, the observation of the financial statements has shown particularly significant results: 87% of the companies (13 out of 15) has opted for the classification by nature, while only 13% of the companies (2 out of 15) has adopted the mode by destination (criterion which contributes to achieve the best results in the field of financial statement analysis).

As shown in Table 1, two companies that have opted for the one statement approach adopted the reclassification criterion by destination, implying the existence of a causal relationship. It is not possible notice the same relationship for the other variable: a classification criterion by nature does not correspond in fact always to the adoption of the two statement approach (except 8 cases on 13).

4.2 The other comprehensive income analysis

Despite the main objective of our study was to highlight the behaviour of listed companies in relation to the spaces of discretion allowed by the rules, we continue the analysis by investigating other profitability aspects of particular relevance.

In particular, it could be interesting to highlight the algebraic sign of the other comprehensive income values in the fifteen considered companies and then compare this value to other economic-financial quantities.

Table 2. The OCI value.

N.	COMPANY	VALUE	CURRENCY
1	AAA Auto Grpup N.V.	1.561	EUR '000
2	CETV – Central European Media Enterprises LTD	(17.586)	US$ '000
3	CEZ	1.617	CZK '000.000
4	ECM Real Estate Investments A.G.	1.081	EUR '000
5	ERSTE Group Bank	137.830	EUR '000
6	FORTUNA Entertainment Group N.V.	1.206	EUR '000
7	KITD – Kit Digital Inc.	(424)	US$ '000
8	KOMERCNI Banka	320	CZK '000.000
9	NWR – New World Resources	39.121	EUR '000
10	ORCO Property Group	Not indicated	EUR '000
11	PEGAS Nonwovens	3.497	EUR '000
12	PHILIP MORRIS CR	0	CZK '000.000
13	TELEFONICA 02 CZECH REPUBLIC A.S.	(107)	CZK '000.000
14	UNIPETROL A.S.	(8.361)	CZK '000
15	VIG – Vienna Insurance Group	45.065	EUR '000

Source: Author's own.

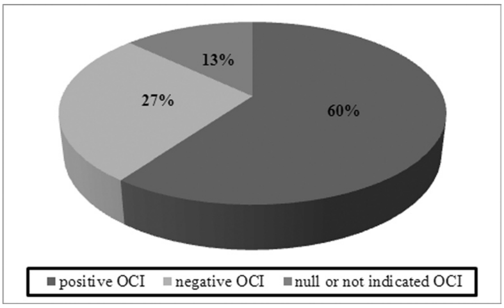

Figure 3. The other comprehensive income 2010. Source: Author's own.

Table 3. The TCI value and the E value.

N.	COMPANY	TCI	E	CURRENCY
1	AAA Auto Grpup N.V.	6.672	14.464	EUR '000
2	CETV – Central European Media Enterprises LTD	79.187	1.247.752	US$ '000
3	CEZ	48.775	227.051	CZK '000.000
4	ECM Real Estate Investments A.G.	(95.598)	(72.828)	EUR '000
5	ERSTE Group Bank	1.324.267	17.128.783	EUR '000
6	FORTUNA Entertainment Group N.V.	21.464	52.007	EUR '000
7	KITD – Kit Digital Inc.	(35.684)	245.624	US$ '000
8	KOMERCNI Banka	13.730	76.078	CZK '000.000
9	NWR – New World Resources	126.089	839.988	EUR '000
10	ORCO Property Group	222.654	355.969	EUR '000
11	PEGAS Nonwovens	24.536	129.041	EUR '000
12	PHILIP MORRIS CR	2.427	9.157	CZK '000.000
13	TELEFONICA 02 CZECH REPUBLIC A.S.	12.173	73.176	CZK '000.000
14	UNIPETROL A.S.	928.372	38.799.708	CZK '000
15	VIG – Vienna Insurance Group	458.315	5.029.647	EUR '000

Source: Author's own.

Table 4. OCI, TCI and E in euro.

N.	COMPANY	OCI (€)	TCI (€)	E (€)
1	AAA Auto Grpup N.V.	1.561	6.672	14.464
2	CETV – Central European Media Enterprises LTD	(13.373)	60.219	948.866
3	CEZ	64.819	1.955.197	9.101.576
4	ECM Real Estate Investments A.G.	1.081	(95.598)	(72.828)
5	ERSTE Group Bank	137.830	1.324.267	17.128.783
6	FORTUNA Entertainment Group N.V.	1.206	21.464	52.007
7	KITD – Kit Digital Inc.	(322)	(27.111)	186.613
8	KOMERCNI Banka	12.828	550.381	3.049.666
9	NWR – New World Resources	39.121	126.089	839.988
10	ORCO Property Group		222.654	355.969
11	PEGAS Nonwovens	3.497	24.536	129.041
12	PHILIP MORRIS CR	0	97.290	367.074
13	TELEFONICA 02 CZECH REPUBLIC A.S.	(4.289)	487.975	2.933.384
14	UNIPETROL A.S.	(335)	37.215	1.555.352
15	VIG – Vienna Insurance Group	45.065	458.315	5.029.647

Source: Author's own.

Table 5. OCI/TCI ratio and OCI/E ratio.

N.	COMPANY	OCI/TCI	OCI/E
1	AAA Auto Grpup N.V.	23,396283	10,7923119
2	CETV – Central European Media Enterprises LTD	–22,2072768	–1,40936655
3	CEZ	3,31521581	0,71217336
4	ECM Real Estate Investments A.G.	–1,13077679	–1,48431922
5	ERSTE Group Bank	10,4080219	0,80466896
6	FORTUNA Entertainment Group N.V.	5,6187104	2,31891861
7	KITD – Kit Digital Inc.	1,18770979	–0,17254961
8	KOMERCNI Banka	2,33074906	0,42063623
9	NWR – New World Resources	31,0264972	4,65732844
10	ORCO Property Group	0	0
11	PEGAS Nonwovens	14,2525269	2,7099914
12	PHILIP MORRIS CR	0	0
13	TELEFONICA 02 CZECH REPUBLIC A.S.	–0,87893847	–0,14621338
14	UNIPETROL A.S.	–0,90017466	–0,02153853
15	VIG – Vienna Insurance Group	9,83275695	0,89598733

Source: Author's own

The following chart highlights the percentages of positive, negative and null OCI or not indicated OCI regarding the statements of comprehensive income of the fifteen companies listed on the Czech Republic Stock Exchange.

This table shows statistic/quantitative data: 60% of the listed Czech companies (9 companies on 15) has a positive value of the OCI and this implies a positive impact on the TCI that consequently assumes a higher value than NI. Instead, four companies assume a negative total OCI and, consequently, a lower total than NI. Finally one company has a null value and one company does not indicate the other comprehensive income separately (overall, they represent 13% of the company).

As mentioned above, another type of analysis that could give good statistical/quantitative directions on the health state of Czech society consists in reporting the OCI to other parameters such as the TCI and the equity (E). These indicators allow to understand new important reports, may not be quantifiable previously. In the Table 3 we show the values assumed by the variables TCI and E for every company.

Not forgetting that various companies have adopted different currencies (namely, different units), In order to compare the values, we have to convert them into Euro '000 currency, when necessary. We use the following exchange rates (February 03, 2012, http://it.exchange-rates.org/converter):

- 1 US$ = 0,76046 €,
- 1 CZK = 0,04009 €.

After having converted the specified values to make them comparable, for a better exposure, we have built a new table to expose the values assumed by two significant indicators: the OCI/TCI ratio and the OCI/E ratio.

The indicator OCI/TCI allows to identify the relationship between the changes in the assets value, partial results not covered in the ante-introduction of the IAS legislation, and the omnicomprehensive income (even this latter not expected before the entrance of the new Statement) that the OCI contribute to form. This indicator has a dual purpose: firstly it identifies the size of the values that form in the absence of transactions with third economies compared to the total income; secondly, for difference and oppositely, it provides information on the incidence of the NI on the TCI. As noted above and as it can be seen from the table, 60% of listed companies has a ratio OCI/TCI positive, as demonstration of the fact that the changes in the assets value positively impact on the total income. In only four cases, this value is negative, one of which caused by a negative TCI (with positive OCI). Finally a company does not indicate the OCI and a company has a null value of the same.

The indicator OCI/E shows the relationship between the OCI and the business E, classical measure that highlights the company size. This ratio shows the management ability to produce additional income as compared to the NI. Thus, it represents a sort of ROE_OCI (Return on equity of the OCI) not calculated in relation to the NI but considering the

Table 6. Statistical measures.

	MAX	MIN	RANGE	MEAN	MEDIAN	MODE	VARIANCE	STANDARD DEVIATION
OCI/TCI	31,0265	–22,2073	53,23377	5,08342	2,330749	0	148,28464	12,17721809
OCI/E	10,79231	–1,48432	12,27663	1,338535	0,420636	0	9,313324	3,051773909

Source: Author's own.

new aggregate introduced by the IAS 1. In parallel to the previous indicator, the companies that exhibited a ratio OCI/TCI negative, show a ratio OCI/E of the same sign, except that in a case where, notwithstanding the first ratio is negative, the second one is greater than zero. This situation is due to the total income of the period that takes a negative value.

4.3 A statistical analysis

In order to make a comparison between synthesis indicators, the arithmetic mean of both indicators considered and also the variance (as a measure of variability with respect to the mean) could be calculated. In the first case the mean is equal to 5.08342 while the variance is equal to 148.2846 (the mean square deviation then amounts to 12.17722). In the second ratio, instead, the arithmetic mean assumes a value of 1.338535 while the variance is equal to 9.313324 (with a standard deviation equal to 3.05177). According to these values, the variability with respect to the mean of the distribution of the first ratio (OCI/TCI) is higher than the variability of the distribution of the OCI/E ratio: this implies a greater distance of the single observed values with respect to their average value in the first report with respect to the second.

Other significant statistical indicators that can be calculated in relation to the two ratios are:

- the range of variation (measures the difference between the maximum and the minimum value),
- the median (the value assumed by the statistical units located in the middle of the distribution),
- – the mode (namely the modality characterized by the maximum frequency).

From the observation of the table we can note that, being the range of variation a measure of variability, we can reach the same conclusions we obtained with the observation of the variance; the first indicator (OCI/TCI) has a higher range of variation than the second one (in the same way it has a higher variance of second). In our analysis the mode is not significant.

In order to understand if there is a causal relationship between the choice of the approach and the positivity of the OCI a regression analysis was conducted by using the statistical program "SAS".

In order to proceed, two dichotomous variables were identified:

- The dependent variable APPROACH (which assumes the value "1" if the Company adopts the one statement approach and value "0" if it uses the two statement approach).
- The independent variable OCI (which assumes the value "1" in case of positive OCI and value "0" in case of negative OCI or null OCI or not indicated OCI).

Observing the output of the program "SAS", it is possible to note that the parameter relative to the independent variable assumes a p-value that is higher than 0.05 (critical threshold); for this reason we accept the null hypothesis (*i.e.* , H0 that is the hypothesis of no significance of the parameters) and, consequently, we cannot say that there is a relationship of dependence between the two considered variables.

Conclusions

Companies have two choices on how to present items of net income, items of other comprehensive income and total comprehensive income: they can create one continuous statement of comprehensive income or two separate consecutive statements. The representation of the comprehensive income in a single statement is a controversial issue and two opposite orientations are present in doctrine; according to them, scholars have started a debate before the adoption of SFAS 130 in the USA that allowed the option of a single or multiple statement of performance reporting. Opponents of a single statement presentation (Linsmeier and als., 1997; Bini, 2007) argue that the inclusion of the other comprehensive income items along with the core business results would confuse users of financial statements and would lead to significant misinterpretation of the company's performance. The potential misinterpretation of the comprehensive income is related to the volatility of the comprehensive income and the perception of increased risk. They argue that information in the comprehensive income is redundant because it can be found elsewhere in the financial statements (Hirst and Hopkins, 1998). On the other hand there are those who support the configuration of the enlarged income for a number of reasons (Beresford, Johnson, Reither, 1996; Robinson, 1991): it allows to better appreciate the company's performance, the ability to predict the future performance of the company, the push for a greater discipline of managers and financial analysts. It is difficult to fully adhere to one or another position because both argue thesis that are worthy of attention.

The research starts from the observation of the format options and the classification criterion adopted by the companies listed on the Czech Republic Stock Exchange (Main Market). Having regard to the reduced number of listed companies on the Main market, it has not been possible to reach a specific study for sectors, analysis that could be interesting to study the causal relationships.

In relation to the primary analyzed aspects, indeed preference for the single statement / two statement format and the classification criterion by nature / by destination, the following results have emerged:

- The first result we obtained is that there is no greater propensity for the one in fact the 53% of the companies adopted the two statement approach while the 47% chose the single statement.
- Secondly we observed that the majority of the companies adopted a classification by nature instead of by destination (87% vs. 13%). This result should not surprise for two reasons: first, the drafting of the statement by function requires information that only a thorough analytical accounting system can provide; second, this preference can be explained in terms of cultural attitude and accounting tradition. In fact, after the Fourth Directive of the E.U., accounting entities in Czech Republic should compile the profit and loss statement vertically, allowing a reclassification criterion either by nature or by function. However, if the profit and loss statement is arranged with respect to the function of entries involved, accounting entity must also include a schedule disclosing the operating costs classified with respect to their nature (Strouhal, 2007). This may have led to the classification preference by nature and this trend was maintained even in the financial statements under IFRS.
- The third result concerns some profitability aspects of particular relevance: 60% of the companies had a positive value of the OCI, 27% assumed a negative total OCI and 13% had a null or not indicated OCI. We calculated two indicators (OCI/TCI and OCI/E). According to the first indicator and in parallel to the previous conclusions, 60% of the companies had a positive ratio and 27% had a negative one. On the basis of the second indicator, we could see that the companies that exhibited a ratio OCI/TCI negative, showed a ratio OCI/E of the same sign, except that in a case.
- The fourth result we obtained is connected with a statistical analysis conducted. The statistical measures calculated showed that the variability with respect to the mean of the distribution of the first ratio is higher than the variability of the distribution of the OCI/E ratio. We also investigated the existence of a casual relationship between the choice of the approach and the positivity of the OCI but we reached the conclusion that there is not a relationship of dependence.

The "two statement approach" represents a solution allowed with respect to the "one statement approach" that is the one favoured by the IASB. The result shown in our analysis allows us to reach the conclusion that, being most of the listed Czech companies parts of foreign groups, they prepare the financial statements according to the group accounting rules based on IFRS. Therefore, we cannot really say that the companies in question have opted for the solution that best fits to the Czech national tradition. Future research could extend the analysis considering the financial statements of the unlisted companies, in order to increase the sample size; this, though, would affect the reliability of the results.

References

Alexander, D. (1993). A European true and fair view?. *European Accounting Review,* 2(1), 59–80.

Alexander, D. (1996). Truer and fairer: uninvited comments on invited comments. *European Accounting Review,* 5(3), 483–493.

Bamber, L. S., Jiang, J. (Xuefeng), Petroni, K., Wang, I. Y. (2010). Comprehensive Income: Who's Afraid of Performance Reporting?. *The Accounting Review*, 85(1), 97–126.

Beranová, M. (2008). Adoption of IFRS/IAS Impacting

the Companies. *Trends Economics and Management*, II(3), 27–33.
Beresford, D., Johnson, L., Reither, C. (1996). Is a Second Income Statement Needed?. *Journal of Accountancy*, 176, 69–72.
Bhamornsiri, S., Wiggins, C. (2001). Comprehensive income disclosure. *The CPA Journal,* 71(10), 54–56.
Bini, M. (2007, June 30). Tra Europa e Usa è lite sui conti. *Il Sole 24 Ore*. p. 24.
Brychta, K. (2009). Development in Determination of Tax Non-Residency of Natural Persons and Specification of the Incomes Having Their Source in the Czech Republic According to the Act on Income Taxes since 1993. *Trends Economics and Management*, III(5), 7–20.
Cairns, D. (1997). The future shape of harmonisation: a reply. *European Accounting Review,* 6(2), 305–348.
Emenyonu, E. N., Gray, S. (1996). International accounting harmonisation in major developed stock market countries: an empirical study. *International Journal of Accounting,* 31(3), 269–279.
Fernández, F. S., Carro Arana, M. M. (2010). Proceedings from 2010 IABR & ITLC: *Effects of Comprehensive Income on ROE in a Context of Crisis: Empirical Evidence For IBEX-35 Listed Companies (2004–2008)*. Orlando, Florida, USA.
Flower, J. (1997). The future shape of harmonisation: the EU versus the IASC versus the SEC. *European Accounting Review*, 6(2), 281–303.
Gazzola, P., Amelio, S. (2012). Proceedings from Economics and Business Management in the 21st Century. International Scientific Conference: *From net income to comprehensive income*. Ostrava, Czech Republic.
Goncharov, I., Hodgson, A. (2008). Comprehensive Income in Europe: Valuation, Prediction and Conservatism Issues. *Annales Universitatis Apulensis Series Oeconomica,* 1(10), 1–38.
Hirst, D. E., Hopkins, P. (1998). Comprehensive Income Reporting and Analysts' Valuation Judgments. *Journal of Accounting Research*, 36, 47–75.
Hove, M. R. (1986). Accounting practices in developing countries: colonialism's legacy of inappropriate technologies. *International Journal of Accounting,* 22(1), 81–100.
IASC. (1999). About International Accounting Standards Committee – The Need for IAS, Retrieved from http://www.iasc.org.uk/frame/cen1_4.htm
Linsmeier, T., Gribble, J., Jennings, R., Lang, M., Penman, S., Petroni, K., Shores, D., Smith, J., Warfield, T. (1997). An Issued Paper on Comprehensive Income. *Accounting Horizons,* 11, 120–126.
Murphy, A. B. (2000). The impact of adopting IAS on the harmonization of accounting practices. *International Journal of Accounting*, 35(4), 471–493.
Nobes, C., Parker, R. (2006). Comparative International Accounting. London: Prentice Hall.
Ordelheide, D. (1990). Soft Transformation of Accounting Rules of the Fourth Directive in Germany. *Les cahiers internationaux de la comptabilite,* 3, 1–15.
Ordelheide, D. (1993). True and fair: a European and a German perspective. *European Accounting Review,* 2(1), 81–90.
Ordelheide, D. (1996). True and fair: a European and a German perspective II. *European Accounting Review,* 5(3), 495–506.
Reilly D. (2007). Profit as We Know It Could Be Lost With New Accounting Statements, *The Wall Street Journal* on May 12, 2007.
Robinson, L. (1991). The Time Has Come to Report Comprehensive Income. *Accounting Horizons*, 5, 107–112.
Solomon, D. C., Dragomirescu, S. E. (2009). New dimensions in enterprise's financial performance reporting: the statement of Comprehensive income. *Finances, Banks and Accountancy*, University of Oradea, Faculty of Economics, România, 18(3), 913–916.
Staňková, M., Režňáková, M., Beranová, M. (2010). Chosen Adjustments of Accounting Data at Calculation of the EVA indicator and their Effects on the Items of Financial Statements. *Trends Economics and Management*, IV(7), 57–66.
Šteker, K., Otrusinová, M. (2011). The current state of the application of international accounting standards in the Czech Republic. *Recent Research in Social Science, Digital Convergence, Manufacturing &Tourism, WSEAS Press,* 12, 81–86.
Strouhal, J. (2007). International financial reporting standard on SMESs: opportunity to change National accounting legislature?. *Series Economics and Organization*, 4(2), 133–141.
Strouhal, J., Deari, F. (2009). Financial Reporting Framework: Case of Czech Republic and Macedonia. *World Academy of Science, Engineering and Technology WCSET*.
Sucher, P., Bychkova, S. (2001). Auditor independence in economies in transition: a study of Russia. *European Accounting Review,* 10(4), 817–841.
Sucher, P., Jindrichovska, I. (2004). Implementing IFRS: A case study of the Czech Republic. *Accounting in Europe*, no. 1, 109–141.
Tay, J. S. W., Parker, R. H. (1990). Measuring international harmonisation and standardization. *Abacus,* 26(1), 71–88.
Van Cauwenberge, P., De Beelde, I. (2007). On the IASB Comprehensive Income Project: An Analysis of the Case for Dual Income Display. *Abacus,* 43(1), 1–26.
Vellam, I. (2004). Implementation of International Accounting Standards in Poland: Can true convergence be achieved in practice?. *Accounting in Europe*. 1, 143–167.
Žárová, M. (2009). Accounting reform in the Czech

Republic. R. McGEE, Accounting reform in transition and developing economies. Springer.

Zemánková, L., Fedorová, A. (2010). Relevance of the financial statements in relation to users of accounting information and their needs. *Trends Economics and Management*. IV(7), 142–150.

Doručeno redakci: 30. 10. 2012
Recenzováno: 29. 11. 2012
Schváleno k publikování: 17. 12. 2012

Patrizia Gazzola, Professor Aggregato
University of Insubria,
Via Montegeneroso 71, 21100 Varese, Italy,
phone: 0039 0332 395529
e-mail: patrizia.gazzola@uninsubria.it
Stefano Amelio, Assistant Lecturer, PhD
University of Bergamo,
Via Moroni 255, 24100 Bergamo, Italy,
phone: 0039 349 3129634
e-mail: stefano.amelio@unibg.it